LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6458
BILL NUMBER: HB 1164

NOTE PREPARED: Feb 15, 2008
BILL AMENDED: Feb 14, 2008

SUBJECT: Property Tax Deduction for Model Residences.

FIRST AUTHOR: Rep. Herrell
FIRST SPONSOR: Sen. Kenley

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED:
  GENERAL
X **DEDICATED**
  FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill, subject to certain restrictions, allows a 50% property tax deduction for property taxes first due and payable after 2009 for a model residence for not more than: (1) an assessment date for which the residence is partially assessed; and (2) the first three years for which the residence is fully assessed. It specifies procedures for obtaining a deduction. It provides that not more than three model residences in Indiana owned by the same owner or an affiliated group of owners may qualify for the deduction for an assessment date.

Effective Date: (Revised) January 1, 2009.

Explanation of State Expenditures:

Explanation of State Revenues: The states levies a small tax rate on property for State Fair and State Forestry. Any temporary deductions granted to owners of model residences would decrease the amount received from this tax until the residences are added to the tax base.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) For taxes payable in 2010 and after, this bill grants a property tax deduction to owners of model homes used for display or demonstration purposes if the homes have never been used as a principal residence. For the purposes of this bill, an owner may also include a syndicate, an affiliated group, or a limited liability company that is treated as a partnership for federal income tax purposes. It does not include a corporation, a trust or an estate. A residence that is used solely as the owner's regular office space may not qualify for the deduction; however, property such as garages used to store or display promotional material, or used to meet with prospective clients do qualify for the deduction. The deduction does not apply to the land on which the home is built.

The deduction lasts for four consecutive years. In the first year, the bill assumes that the residence would be partially assessed and grants a 50 percent deduction of the partially assessed value. In the following three years, the bill assumes that the model would be fully assessed and grants a 50 percent deduction of this fully assessed value. If, within the four year period, the residence is sold between Mar 2 and December 31 of the current year, the deduction ends unless the residence is sold to another taxpayer who also uses it as a model home.

To claim this deduction, the owner must file a notice with the county auditor for each year he wishes to claim the deduction. The township assessor would verify each deduction after which the auditor would make the deduction, and inform the county property tax assessment board of appeals (PTABOA) of all deductions approved. If the deduction is terminated before the four year period is up because the residence has been sold, the county auditor shall immediately notify the township assessor and the county treasurer. A property owner may claim the deduction for a maximum of three model residences; members of an affiliated group may claim the deduction for a total of three model residences maximum. Property receiving this deduction may not qualify for any other deduction.

The specific amount of AV involved in model residences is indeterminable at this time. This bill delays the addition of the AV of model residences to the tax base for up to four years. This addition to the tax base could help spread the property tax burden and could possibly reduce some tax rates. As such the bill would cause a delay in the shift of the property tax burden from all taxpayers to the owners of model residential property until the property is placed on the tax rolls. The impact would depend on the value of new model residences.

Generally speaking, the addition of AV to the tax base provides a tax shift from existing property owners to the new property owners by spreading the tax levy over a larger tax base. Deductions slow this shift as it pertains to property that would have been put in place regardless of the deduction. There would be no effect on the AV of existing property.

The varying rates at which AV in each class of property grow in relation to each other determine each class's relative share of the tax burden. The extent to which the growth rate for model residences is affected by this bill would determine whether any tax shifts would occur between classes. Regarding property that would have been put in place regardless of the deduction, this bill would shift some taxes from such residences to other property classes.

State Agencies Affected: Department of Local Government Finance, State Fair, Department of Natural Resources.

Local Agencies Affected: County auditors, County Treasurers, Township assessors, PTABOA.

Information Sources:

Fiscal Analyst: David Lusan, 317-232-9592.